B2B Trust

Annual Report 2003

B2B TRUST
A SUBSIDIARY OF LAURENTIAN BANK

B2B Trust for profitable and mutually rewarding business relationships

Financial highlights

As at October 31

In thousands of dollars, except per share amounts	2003	2002
Per common share		
Net income		
Basic and diluted	**$ 0.59**	$ 0.83
Book value	**$ 7.71**	$ 7.37
Share price		
High	**$ 8.75**	$ 12.50
Low	**$ 6.50**	$ 7.40
Close	**$ 8.00**	$ 7.80
Number of common shares outstanding (in thousands)		
Average	**24,596**	24,844
End of period	**23,880**	24,844
Price / earnings ratio	**13.6 x**	9.4 x
Market to book value	**104 %**	106 %
Earnings		
Total revenue	**$ 62,530**	$ 71,793
Net income available to common shareholders	**$ 14,622**	$ 20,664
Return on common shareholders' equity	**7.9 %**	11.8 %
Return on average assets	**0.55 %**	0.81 %
Other income		
As a % of total revenue	**25.1 %**	23.5 %
As a % of average assets	**0.60 %**	0.66 %
Efficiency ratio		
Non-interest expenses as a % of total revenue	**60.2 %**	51.4 %
Balance sheet assets and assets under administration		
Balance sheet assets	**$2,626,411**	$2,686,343
Cash resources and securities	**$ 582,984**	$ 428,400
Loans	**$1,993,993**	$2,199,545
Deposits	**$2,207,083**	$2,267,155
Assets under administration	**$4,834,038**	$4,706,277
Quality of assets		
Net impaired loans		
As a % of investment and other personal loans	**(0.02)%**	(0.04)%
Allowances for loan losses		
As a % of gross impaired loans	**110 %**	129 %
As a % of investment and other personal loans	**0.22 %**	0.18 %
Capitalization		
Shareholders' equity and subordinated indebtedness	**$ 244,187**	$ 243,035
Tier I capital ratio	**13.6 %**	13.3 %
Total capital ratio	**18.0 %**	17.6 %

To our shareholders,

Under closer examination, these results—along with B2B Trust's initiatives throughout fiscal 2003 which are already proving fruitful—allow us to anticipate a more dynamic and profitable growth in the coming months and years.

Over the last few years, difficult capital market conditions have prompted investors to adopt a cautious approach. During this time, the mutual fund market, in particular, was severely affected and again this year, equity mutual funds will post net redemptions. Thus, it appears that investors continue to be cautious in their choice of investment products, favouring fixed-term deposits and fixed-income mutual funds.

Given the stock market recovery during the second half of 2003, the situation has somewhat improved and the perspectives for 2004 are much more positive given the favorable outlook for business investments and economic growth.

Results

B2B Trust's revenues are still closely linked to the equity mutual fund market and our year-end results reflect the weaknesses in that market.

For the fiscal year ended October 31, 2003, B2B Trust reported total revenues of $62.5 million and net income of $14.6 million or $0.59 per common share. These results compare to total revenues of $71.8 million and net income of $20.7 million or $0.83 per common share for fiscal 2002.

In light of our initial expectations and of our commitment to improve profitability, year-end results are disappointing. Throughout fiscal 2003, in a difficult business environment, we focused our efforts on cost management and pursued several initiatives to bring improved efficiencies. Moreover, focusing on revenue growth, we have taken the first steps towards diversifying our sources of revenue. The impact of the lack of growth in the market however, combined with such exceptional circumstances as the outbreak of SARS, counterbalanced the positive results of these measures.

Under closer examination however, these results—along with B2B Trust's initiatives throughout fiscal 2003 which are already proving fruitful—allow us to anticipate a more dynamic and profitable growth in the coming months and years.

Marketing initiatives

These expectations rest on continued improvements in the financial markets and, most importantly, on the development of B2B Trust's products and services for both its "traditional" clientele and new clients such as major retailers.

In this respect, the execution of a marketing agreement with Canadian Tire Financial Services may be considered one of the most significant achievements of fiscal 2003 and, by extension, one of the most promising avenues for growth. Among other benefits, this agreement will be instrumental in allowing B2B Trust to diversify its sources of revenue on a sustainable basis.

B2B Trust has also entered into new distribution alliances with Northwest Mutual Funds Inc., Canada Life Assurance Company, Franklin Templeton Investments Corp., SSQ Financial Group and Return on Innovation Management Ltd.

These alliances in investment loan, branded RSP loan and segregated fund loan programs attest to the relevance and to the quality of B2B Trust's products and services, and further consolidates its position with financial advisors, their dealerships and the investment community as a whole.

Reaching Out

Developing new avenues for growth and new sources of revenue—our primary objective—also rests upon the development and fine-tuning of B2B Trust's range of products and services.

Fiscal 2003 has witnessed such undertakings: B2B Trust, among other initiatives, enlarged its range of credit products and implemented online application processes for loans.

The introduction of B2B Trust's new, innovative process for online adjudication of RRSP loan applications is particularly significant. B2B Trust is confident that financial advisors and their customers will appreciate and benefit from the speed and efficiency of this leading-edge service which, moreover, will increase the technological visibility of B2B Trust in the market.

B2B Trust's online services have been expanded to include new applications to enable clients to perform interinstitutional funds transfers and to further facilitate the working of distribution alliances.

In the coming years, we intend to become progressively less dependent on our mutual fund lending business for asset growth. Indeed, B2B Trust will strive to achieve its growth through an enlarged investment loan offering in terms of product design, delivery channels and markets reached, as well as a growing consumer loan business both through our traditional channels and through major retailers. The future growth of both top and bottom lines will rely on those two development axes.

We are confident that, as we reach out to new clients and new markets while maintaining our leading position, B2B Trust is poised to grow at a significant pace in the months and years to come.

Throughout 2003, in a very difficult business environment, the Board of Directors has taken an active and efficient part in B2B Trust's strategic planning, and has upheld corporate governance policies and practices that fully meet current requirements. In other respects, it is with deep regrets that the Board of Directors learned of the passing of Mr. Jacques G. Auger during the year. One of B2B Trust's directors since 2000, Mr. Auger was Chairman and Chief Executive Officer of Le Link Consulting Inc. His colleagues held him in high esteem for his judicious advice and his active participation in the Board of Directors' activities and committees. Other changes in the Board of Directors' composition in 2003 include the departure of Ms. Suzanne Masson and the appointment of Mr. Michel C. Trudeau, President and Chief Executive Officer of Laurentian Bank Securities Inc.

Finally, we would like to express our deepest appreciation to all our employees who, confronted with the unexpected and difficult challenges posed by the SARS outbreak in Toronto, have shown their dedication and determination and enabled B2B Trust to maintain an exceptional level of customer service while implementing a contingency plan to conduct "business as usual."

We would also like to thank our distribution partners and shareholders for their continued support, and assure them that we will continue to honour our commitments with all our energy and resources.

"B2B Trust will strive to achieve its growth through an enlarged investment loan offering in terms of product design, delivery channels and markets reached, as well as a growing consumer loan business both through our traditional channels and through major retailers. The future growth of both top and bottom lines will rely on those two development axes."

Raymond McManus
Chairman of the Board

Bernard Piché
President
Chief Executive Officer

This section of the Annual Report is Management's discussion and analysis of the results of operations and financial condition of B2B Trust for the year ended October 31, 2003. The information is presented on the same basis as the financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements specified by the Superintendent of Financial Institutions of Canada (OSFI), which conform, in all material respects to GAAP.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements relating, but not limited to, anticipated financial performance, business prospects and strategies of B2B Trust. These statements are subject to a number of risks and uncertainties, several of which are independent of B2B Trust's will, and can have an impact on B2B Trust's operations, performance and results. These factors may impact actual results which could differ from results contemplated by the forward-looking statements. Such differences may be caused by factors which include, among others, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change, along with B2B Trust's success at managing costs related to executing its business plan. B2B Trust cautions that the foregoing list of factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. B2B Trust does not undertake to update any forward-looking statements, oral or written, made by itself on its behalf.

Management's discussion and analysis of financial condition and results of operations

ECONOMIC CONTEXT FOR 2003

B2B Trust is impacted indirectly by the overall performance of the Canadian economy. The demand for products and services that B2B Trust provides through its distribution alliances is influenced by the general growth in Canada's economic activity, the financial performance of capital markets, particularly equity markets, and changes to the borrowing rates influenced by the Bank of Canada's monetary policy.

After a strong start in 2003, the Canadian economy slowed abruptly in the spring and summer months after a series of one-off events such as the outbreak of SARS, the investigation into the "mad cow disease," forest fires in British Columbia and the power outage in Ontario. Gross Domestic Product growth slowed to an estimated 2.0% in 2003 after healthy growth of 3.3% in 2002. The negative impact of the extraordinary events mentioned above was also compounded by the dramatic increase in the Canadian currency relative to the US currency.

The Bank of Canada responded to the changing economic performance by first raising overnight borrowing rates by 50 basis points, and then reducing it by the same 50 basis points. As at October 31, 2003, there was little change in the Government of Canada yield curve from the prior year.

Overall, North America's economy and equity markets improved in 2003 relative to 2002 with the anticipation that the fiscal and monetary stimulus in the US would improve future economic and corporate performance, and cash flows into equities and mutual funds would return. A return of rising equity prices underpins many of B2B Trust's traditional product offerings, while consumer spending influenced in part by employment growth impacts the growth in other personal loans and the profitability of a relatively new alliance with a major Canadian retailer.

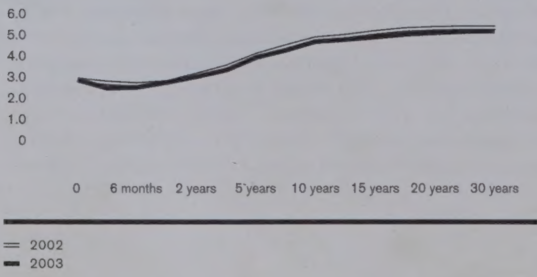
SUMMARY OF FINANCIAL RESULTS

For the year ended October 31, 2003, B2B Trust reported net income of $14,622 thousand or $0.59 per basic and diluted common share compared to $20,664 thousand or $0.83 per basic and diluted common share in 2002. Return on common shareholders' equity was 7.9% in 2003 compared to 11.8% in 2002. The evolution of B2B Trust's profitability is largely explained by the following factors:

- Net income declined by $6,042 thousand principally due to decreased revenue of $9,263 thousand, an increase in the provision for loan losses of $900 thousand and an increase in non-interest expenses of $724 thousand, partially offset by lower taxes of $4,845 thousand.
- Total revenue declined by $9,263 thousand or 12.9% to $62,530 thousand in 2003 from $71,793 thousand in 2002. Net interest income declined by $8,128 thousand or 14.8% in 2003. B2B Trust experienced growth in average assets of 3.8% in 2003. However, the asset growth was countered by changes in the asset mix and the interest rate environment which caused net interest margins to decline by 39 basis points. Other income declined by $1,135 thousand or 6.7% principally due to a decrease in the number of plans under administration.
- The provision for loan losses in 2003 was $1,650 thousand or 0.06% of average assets, up from $750 thousand or 0.03% of average assets in 2002. Gross impaired loans were $2.4 million in 2003, an increase of $724 thousand over 2002. The increase in impaired loans was largely associated with the $28.4 million portfolio of credit facilities acquired in December 2002. The level of impaired loans remained within acceptable levels given economic conditions and represents 0.2% of investment and personal loans. B2B Trust has general and specific allowances for these loans on its balance sheet in excess of the impaired loans amount.
- Non-interest expenses of $37,627 thousand for 2003 is an increase of $724 thousand or 2.0% from 2002. The efficiency ratio for 2003 was 60.2% versus 51.4% in 2002, as the decline in revenue primarily due to changes in the asset mix could not be offset by lower operating expenses.

Canadian Government of Canada yield curve

As at October 31, as a %



Canadian growth stalled in 2003

Cdn real GDP Q/Q% change, annualized

- Income tax expense for 2003 was $8,631 thousand or $4,845 thousand lower than 2002 due to lower operating earnings and a decrease in the effective tax rate from 39.5% to 37.1%.
- Liquidity as measured by cash and securities to total assets rose from 15.9% in 2002 to 22.2% in 2003.
- B2B Trust's capital ratios remained strong throughout 2003 despite capital distributions undertaken by way of the normal course issuer bid (share repurchase program) and the first full year of dividend payments. The Tier I Capital Ratio was 13.6%, up from 13.3% last year, and the total capital ratio was 18.0% up from 17.6% in 2002. Both capital ratios were well above OSFI requirements of 7.0% and 10.0% respectively.

OPERATING RESULTS

2003 was a challenging year for B2B Trust across many of its product lines. B2B Trust reacted to the challenge by strengthening its existing client relationships, as well as establishing new products and alliances to utilize all of its product capabilities, capital strength and technology. In addition, expenses were contained with the continuous improvement in the delivery of electronic services.

A discussion of B2B Trust's risks and existing risk management measures can be found under the section *Integrated Risk Management* on page 13 of this Annual Report. Below is a review of the operating results for fiscal 2003.

Net interest income

Net interest income declined by $8,128 thousand in 2003 to $46,815 thousand. The average interest rate margin declined by 39 basis points from 2.16% in 2002 to 1.77% in 2003, primarily due to the changes in B2B Trust's asset mix, the funding costs associated with different portfolios, and the interest rate environment.

Average assets increased by $97.1 million in 2003 with average liquidity composed of cash and securities increasing by $152.3 million, average investment and personal loans increasing by $28.8 million being partially offset by a $90.6 million decrease in the purchased residential mortgages portfolio. The mortgage portfolio declined due to the normal course repayment of mortgages during the year. The additional liquidity created by the repayment of mortgages was invested in lower yielding securities thereby causing a decline in the interest margin.

The growth in B2B Trust's high-yield savings accounts has resulted in an increase in the cost of funding in 2003 as customers looked for higher yielding alternatives in a low interest rate environment.

TABLE 1

Net interest income

For the years ended October 31
In thousands of dollars and as a percentage

	2003			2002		
	Average Volume	**Average Rate**	**Interest**	Average Volume	Average Rate	Interest
Assets						
Cash and cash equivalents and securities	**$ 515,478**	**3.36%**	**$ 17,308**	$ 363,215	3.56%	$ 12,941
Loans						
Investment and other personal	**1,221,303**	**5.62**	**68,608**	1,192,523	5.09	60,679
Residential mortgages	**872,688**	**5.74**	**50,135**	963,311	6.13	59,068
Capital assets and other assets	**28,109**	**–**	**–**	21,433	–	–
	$2,637,578	**5.15%**	**$136,051**	$2,540,482	5.22%	$132,688
Liabilities and shareholders' equity						
Deposits	**$2,238,893**	**3.81%**	**$ 85,283**	$2,160,645	3.42%	$ 73,799
Other liabilities	**153,783**	**–**	**–**	144,336	–	–
Subordinated indebtedness	**60,000**	**6.60**	**3,953**	60,000	6.60	3,946
Shareholders' equity	**184,902**	**–**	**–**	175,501	–	–
	$2,637,578	**3.38%**	**$ 89,236**	$2,540,482	3.06%	$ 77,745
Net interest income		**1.77%**	**$ 46,815**		2.16%	$ 54,943

Other income

Total other income in 2003 was $15,715 thousand, a decline of $1,135 thousand or 6.7% from $16,850 thousand in 2002. Self-directed plan fees were $12,486 thousand, down 4.8% from $13,110 thousand in 2002. Other income was $2,966 thousand, a decrease of $565 thousand from $3,531 thousand in 2002. In 2003 there was a 6.2% decrease in the number of self-directed plans under administration. The reduction in the number of plans under administration is attributed mainly to the new regulatory context, as a number of financial intermediary firms began administering their own plans internally.

Provision for loan losses

The provision for loan losses charged to the results of 2003 was $1,650 thousand, an increase of $900 thousand from 2002. The increase is largely attributable to personal loans related to the line of credit portfolios. Personal credit facilities increased by $55.0 million, or 132% over the previous year. The increase in provisioning is in line with increased business volume in these portfolios.

Gross impaired loans as at October 31, 2003 was $2.4 million and represented 0.2% of total loans, compared with 0.1% for the previous year. The increase in impaired loans is attributable to growth in personal credit facilities. The quality of the investment loan portfolio remained strong in 2003, as well as the purchased residential mortgage portfolio whose mortgages are essentially all insured by the Canada Mortgage and Housing Corporation ("CMHC"). B2B Trust's provision for loan losses was 0.06% of average assets in 2003 compared to 0.03%, which highlights the low risk nature of its lending portfolio.

The allowance for loan losses on the balance sheet exceeded gross impaired loans by $240 thousand as at October 31, 2003 as compared to an excess of $485 thousand in 2002. B2B Trust's allowance for loan losses included a general allowance of $1,618 thousand as at October 31, 2003, an increase of $250 thousand over the previous year. The increase results from assets acquired on December 24, 2002 (see note 2 of the financial statements on page 26).

Non interest expenses

Non interest expenses were $37,627 thousand for fiscal 2003 compared to $36,903 thousand in 2002. The $724 thousand increase is principally due to higher expenditures on technology, countered by lower costs in Other expenses. Salaries and employee benefits remained virtually unchanged at $13,295 thousand in 2003. The number of employees was 254 (on a full time equivalent basis) at October 31, 2003, compared to 238 at October 31, 2002. Premises and technology expenses totaled $10,902 thousand compared to $9,800 thousand in 2002; the increase is associated with the amortization of set up costs related to new distribution alliances. Other expenses were $13,430 thousand, down $360 thousand from $13,790 thousand in 2002.

Efficiency ratio

The efficiency ratio is a standard measure of operational productivity. For 2003 the ratio increased to 60.2% from 51.4% in 2002. The decline in operational productivity is reflective of the decline in revenue due to asset mix changes as previously discussed, while volume and overall transaction activity increased marginally year over year. With the asset mix back at historical averages, B2B Trust's economic advantage of distributing lending products through independent third parties would be reflected in an improved efficiency ratio. Nonetheless, a ratio of 60.2% still compares favourably with traditional Canadian financial institutions, particularly the major Canadian banks.

BALANCE SHEET

Balance sheet assets were $2,626.4 million at October 31, 2003 compared to $2,686.3 million at October 31, 2002, representing a year over year decrease of $59.9 million or 2.2%. During the fiscal year, total loans decreased by $205.6 million or 9.3% to $1,994.0 million, primarily in the residential mortgage portfolio category which decreased by $192.3 million. There was also a $68.3 million decline in investment loans, partially offset by a $55.0 million increase in other personal loans. The additional liquidity presented by the repayment of loans was primarily invested in highly liquid fixed income securities, resulting in a $154.6 million increase in cash resources and securities. Deposits declined by $60.1 million from $2,267.2 million in 2002 to $2,207.1 million in 2003.

Cash and cash equivalents, securities and deposits

Cash and cash equivalents, at $292.9 million in 2003, increased by $83.1 million from $209.8 million in 2002. Securities composed primarily of short term government bonds increased by $71.4 million to $290.0 million at October 31, 2003. Overall, B2B Trust's liquid assets increased by $154.6 million in 2003, resulting in a liquidity ratio of 22.2% compared to 15.9% of assets for the previous year.

Liquidity is also supported by B2B Trust's broad diversification of deposit products and maturities. Total deposits at October 31, 2003 were $2,207.1 million, a decrease of $60.1 million when compared with $2,267.2 million in 2002. Demand and notice deposits were $261.8 million, up $32.9 million from $228.9 million in 2002 due to increased activity in the high-yield savings account. Term deposits were $1,945.3 million, down $93.0 million from $2,038.3 million in 2002. Term deposits were allowed to decline through its pricing strategy to partially counter the increased liquidity provided by residential mortgage repayments.

Investment loans

Investment loans as at October 31, 2003 were $1,113.5 million compared to $1,181.8 million in 2002, a decline of $68.3 million from the previous year. Growth in this product is mainly tied to a successful RSP season, and strong equity markets. B2B Trust is expecting these lending products to resume growth in fiscal 2004 as equity markets resume their historical pattern of outperforming fixed income markets, and mutual fund flows turn positive heading into the 2004 RSP season.

Investment loans as at October 31, 2003 consist of $1,029.5 million of mutual fund loans and $84.0 million of RRSP loans. The mutual fund loan portfolio consists of 22,917 loans with an average balance of approximately $45,000 per loan. These loans to individuals are typically secured by four or five mutual funds, therefore providing good diversification. Mutual funds must meet B2B Trust eligibility criteria for use as collateral.

Other personal loans

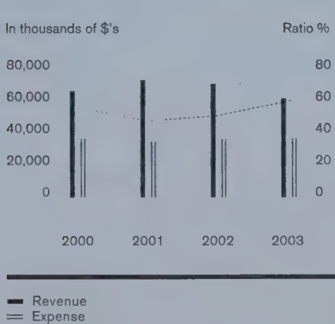
Other personal loans consisting of prime-based lines of credit increased by $55.0 million from $41.7 million in 2002 to $96.7 million in 2003. B2B Trust is currently anticipating organic growth from this portfolio as new credit lines are initiated, and as customers take advantage of existing approved credit facilities. Growth over the past two years has primarily been due to asset acquisitions and marketing agreements signed with third parties.

Residential mortgages portfolio

Residential mortgage loans declined by $192.2 million to $783.8 million in 2003 from $976.0 million in the previous year. Residential mortgage loans declined due to the normal course of mortgage repayments. Residential mortgages are purchased in blocks from other financial institutions, principally Laurentian Bank of Canada, to absorb excess liquidity and are matched against funding provided from term deposit products. Residential mortgages purchased are mainly CMHC insured to virtually eliminate credit risk.

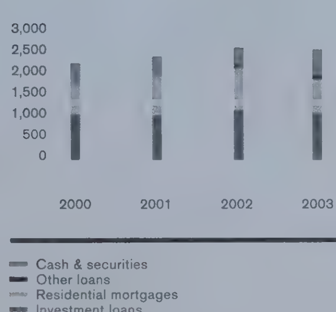
In 2003, B2B Trust exchanged with Laurentian Bank of Canada a $181.6 million portfolio of CMHC insured residential mortgages, along with cash consideration of $13.2 million for a $194.8 million portfolio of CMHC insured residential mortgages. The exchange had no impact on the statement of income and was entered into in order to facilitate a transaction between Laurentian Bank and another financial institution.

Efficiency ratio



Mix of interest bearing asset balances

In thousands of $'s



Allowances amount exceeding impaired loans

In thousands of $'s

Impaired loans

Gross impaired loans stood at $2,379 thousand at October 31, 2003 for an increase of $724 thousand from October 31, 2002. Specific and general allowances increased by $479 thousand from October 31, 2002 to $2,619 thousand at October 31, 2003. Therefore, total allowances exceeded impaired loans by $240 thousand at year end, equivalent to 0.02% of total investment and other personal loans, down from $485 thousand or 0.04%, for the prior year.

B2B Trust's allowance for loan losses included a general provision of $1,618 thousand at October 31, 2003, an increase of $250 thousand over 2002 associated with the acquisition of net assets in December 2002.

ASSETS UNDER ADMINISTRATION

Assets under administration for self-directed plans were $4.8 billion at October 31, 2003 compared to $4.7 billion at October 31, 2002, relatively unchanged as the decrease in the number of plans under administration was more than partially offset by increases in the market value of assets under administration.

Assets under administration generate fee revenue from administrative services, as well as providing a funding source which is the core of B2B Trust's deposit broker business. This funding source is complemented by deposits held in other self-directed plans as well as non-registered high yield savings accounts.

CAPITAL

Total capital of B2B Trust was $244.2 million as at October 31, 2003, compared to $243.0 million at October 31, 2002. Capital was comprised of $184.2 million in common shareholders' equity, and $60.0 million of subordinated indebtedness. B2B Trust had 23.9 million common shares outstanding and a book value of $7.71 per common share as at October 31, 2003, an increase from $7.37 per common share at October 31, 2002.

B2B Trust repurchased 964,500 common shares at an average cost of $6.88 per share, for total cash consideration of $6.6 million in 2003. The right to repurchase common shares under the normal course issuer bid started on June 3, 2003 will terminate on June 2, 2004. The shares were purchased on the open market through the facilities of the Toronto Stock Exchange.

Capital ratios remained strong throughout 2003 despite capital distributions undertaken by way of the share repurchase program, and the first full year of dividend payments. The BIS Tier I and total capital ratios were 13.6% and 18.0%, respectively, as at October 31, 2003 compared to ratios of 13.3% and 17.6% as at October 31, 2002. B2B Trust's capital ratios are well in excess of the BIS Tier I and total capital ratios of 7.0% and 10.0% respectively, required for a well-capitalized financial institution. Tier I capital of B2B Trust is composed entirely of common shareholders' equity.

TABLE 2

Regulatory capital–BIS

As at October 31, in thousands of dollars

	2003	2002
Common shares	**$ 147,284**	$ 153,189
Retained earnings	**36,903**	29,846
Total–Tier I capital (A)	**184,187**	183,035
Subordinated indebtedness	**60,000**	60,000
Total–Tier II capital	**60,000**	60,000
Regulatory capital–BIS (B)	**$ 244,187**	$ 243,035
Total risk-weighted assets–BIS (C)	**$1,359,158**	$1,379,550
Tier I BIS capital ratio (A/C)	**13.6%**	13.3%
Total BIS capital ratio (B/C)	**18.0%**	17.6%
Balance sheet assets to BIS capital ratio	**10.8 x**	11.1 x

TABLE 3

Risk-weighted assets

As at October 31, in thousands of dollars

	BIS weighting factor	2003 Gross notional amount	2003 Risk-weighted amount	2002 Gross notional amount	2002 Risk-weighted amount
Balance sheets assets					
Cash and cash equivalents	20%	$ 292,940	$ 58,588	$ 209,763	$ 41,953
Securities issued or guaranteed by Canada or provinces	0%	255,729	–	208,116	–
Other securities	100%	22,970	22,970	10,521	10,521
	20%	11,345	2,269	–	–
Mortgage loans					
CMHC-insured	0%	770,416	–	941,588	–
Residential mortgages	100%	363	363	34,457	34,457
	50%	13,003	6,502	–	–
Investment and other personal loans	100%	1,207,592	1,207,592	1,221,360	1,221,360
Capital assets and other assets	100%	52,053	52,053	60,538	60,538
Total–On-balance sheet assets		$2,626,411	$1,350,337	$2,686,343	$1,368,829
Off-balance sheet items					
Derivative financial instruments			8,821		10,721
Total–Risk-weighted assets–BIS			$1,359,158		$1,379,550

DIVIDENDS

For 2003, B2B Trust declared and paid dividends of $0.28 per common share, resulting in a payout ratio of 47% for fiscal 2003. B2B Trust feels that the payout ratio is well supported by the conservative and diversified business model in place. Total dividends declared during the fiscal year was $6,875 thousand.

OUTLOOK

B2B Trust will work to become progressively less dependent on the mutual fund lending business for asset growth in the coming years. B2B Trust will strive to achieve its growth through an enlarged investment loan offering in terms of product design, delivery channels and markets reached, as well as, a growing consumer loans business both through traditional channels and through major retailers. The broader and more diversified revenue growth strategy will be supported by expense management to ensure growth in earnings per share.

Quarterly highlights

In thousands of dollars, except per share amounts (unaudited)				2003				2002
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	$ 32,756	$ 35,393	$ 33,539	$ 34,363	$ 34,679	$ 33,610	$ 31,164	$ 33,235
Interest expense	21,502	23,662	22,033	22,039	21,689	20,052	16,943	19,061
Net interest income	11,254	11,731	11,506	12,324	12,990	13,558	14,221	14,174
Provision for loan losses	445	446	446	313	187	188	188	187
	10,809	11,285	11,060	12,011	12,803	13,370	14,033	13,987
Other income	3,832	4,082	3,902	3,899	3,964	4,149	4,431	4,306
Non-interest expenses	9,316	9,739	9,312	9,260	9,338	9,124	9,417	9,024
Income before income taxes	5,325	5,628	5,650	6,650	7,429	8,395	9,047	9,269
Income taxes	2,034	2,052	2,077	2,468	2,975	3,302	3,521	3,678
Net income	$ 3,291	$ 3,576	$ 3,573	$ 4,182	$ 4,454	$ 5,093	$ 5,526	$ 5,591
Return on common shareholders' equity	7.1%	7.6%	7.9%	9.0%	9.8%	11.4%	13.0%	13.1%
Per common share								
Average number of common shares outstanding (in thousands)	23,982	24,721	24,844	24,844	24,844	24,844	24,844	24,844
Net income	$ 0.14	$ 0.14	$ 0.14	$ 0.17	$ 0.18	$ 0.20	$ 0.22	$ 0.23
Book value	$ 7.71	$ 7.63	$ 7.54	$ 7.47	$ 7.37	$ 7.26	$ 7.12	$ 6.90
Stock market share price–close	$ 8.00	$ 6.76	$ 7.00	$ 7.40	$ 7.80	$ 10.00	$ 12.10	$ 9.30
Total assets (end of period)	$2,626,411	$2,649,958	$2,674,643	$2,666,765	$2,686,343	$2,608,875	$2,580,247	$2,507,417
Risk-weighted assets	$1,359,158	$1,370,221	$1,370,688	$1,354,761	$1,379,550	$1,352,242	$1,352,464	$1,252,749
Tier I capital	$ 184,187	$ 185,802	$ 187,331	$ 185,486	$ 183,035	$ 180,320	$ 176,966	$ 171,440
Total capital	$ 244,187	$ 245,802	$ 247,331	$ 245,486	$ 243,035	$ 240,320	$ 236,966	$ 231,440
Capital ratios								
Tier I	13.6%	13.6%	13.7%	13.7%	13.3%	13.3%	13.1%	13.7%
Total capital	18.0%	17.9%	18.0%	18.1%	17.6%	17.8%	17.5%	18.5%
Balance sheet assets to BIS capital ratio	10.8x	10.8x	10.8x	10.9x	11.1x	10.9x	10.9x	10.8x

Integrated risk management overview

Risk management is the integrated process of understanding and managing the risks associated with both business transactions and the general environment. B2B Trust supports a strong and well-informed risk culture.

The objectives of B2B Trust's integrated risk management program are to:

- promote the identification, measurement and evaluation of market risks (including structural risk and liquidity risk), capital management risk, credit risk and operational risks;
- communicate processes, norms and standards for operations and the management of confidential information.

Risk Management Framework

The integrated risk management framework (the "Framework") provides B2B Trust with the tools to:

- identify and evaluate, on an ongoing basis, the major risks that B2B Trust faces, along with their possible impacts;
- establish risk management policies and standards for the evaluation and reasonable acceptance of risk; and
- establish and apply efficient internal mechanisms for prudent control of these risks.

To meet these objectives, the Framework is divided into two distinct sections: control and corporate governance.

The Control aspect rests on five functions: human resources, strategic planning, financial integrity, risk management and compliance. The responsibility for each function is delegated to members of senior management and is supervised by the committees of B2B Trust's Board of Directors.

The **Board of Directors** ensures that B2B Trust has an effective strategic management process that takes into account all relevant risks.

The **Audit Committee** ensures that B2B Trust has a control system that fosters adequate management of activities and risks. It ensures that Management and the Board have pertinent, precise and complete information and that B2B Trust operates in compliance with regulatory provisions.

The **Human Resources and Corporate Governance Committee** ensures that the compensation plan is compatible with the attainment of objectives and prudent management of activities. It also monitors B2B Trust's corporate governance practices.

The **Risk Management Committee** ensures that B2B Trust has an adequate risk management process that covers identification, evaluation and management of risks and formulation of adequate policies pertaining to market risk, capital management, credit risk and operational risk. It also approves rules of conduct and behaviour.

Risk Management structure

Management has put in place a risk management structure that was approved by the Board of Directors. The Management Committee has established that market risk, liquidity risk, capital management risk, credit risk, operational risk and regulatory risk are quite controllable and measurable and can be more formally supervised. Consequently, these risks are subject to particular policies and are monitored by Management's Risk Management Committee.

Nature of Risks

B2B Trust has grouped risks associated with its operations into four principal categories:

1. Market Risk Management (including Structural Risk and Liquidity Risk)
2. Credit Risk Management
3. Operational Risk Management (including Outsourcing Risk)
4. Capital Management Risk

1. MARKET RISK MANAGEMENT

Market risk is the risk of financial loss due to movements in interest rates as well as bond and equity prices for balance sheet and off-balance sheet financial instruments. The level of market risk to which B2B Trust is exposed varies constantly, according to market conditions and predicted swings in market prices and market trends.

For risk management purposes, B2B Trust is ultimately responsible for the application of its Market Risk Management Policies. However, B2B Trust has mandated Laurentian Bank of Canada, through a servicing agreement, to ensure execution and monitoring of all capital market operations. Furthermore, Laurentian Bank of Canada must review market risk management activities on a consolidated basis which includes B2B Trust to ensure compliance with all rules and regulations applicable to all the sectors and subsidiaries of Laurentian Bank of Canada.

B2B Trust establishes policies and limits that enable it to oversee and limit exposure to market risks arising from its asset and liability management activities. The management strategy retained, the principles adopted and objectives set reflect the degree of risk that B2B Trust is prepared to assume in relation to the anticipated results. Detailed reports on risk and monitoring of the limits are produced daily.

Structural Risk Management

Structural risk is the potential negative impact of interest rate movements on B2B Trust's results and economic value. The primary sources of structural risk to which B2B Trust is typically exposed are repricing risk, yield curve risk, basis risk and optionality. Repricing risk occurs when there are differences in assets, liabilities and off-balance sheet instruments where maturity or modification date changes occur in a given period. These gaps result mainly from clients' maturity preferences. Yield curve risk affects the market value of portfolios and occurs when the rate of return does not match a given return yield curve. Basis risk occurs when differentials between various index prices change. Optionality stems from the impact of interest rate fluctuations and the degree of volatility on the market value of options held in B2B Trust's portfolios. These options, called "embedded," enable clients to modify their loan and deposit maturity profile. The most common embedded options are the reimbursement characteristics of certain term deposit products and the prepayment options of certain loan products.

Both the dynamic management and disciplined control of structural risk are intended to maximize B2B Trust's profitability and preserve the economic value of shareholders' equity. The objective of portfolio management is to achieve an equilibrium between the increase in interest income and the reduction of the negative impact of interest rate movements. To attain this objective, various treasury and derivative instruments, mainly interest rate swaps and options are used to modify the interest rate characteristics of the underlying instruments on the balance sheet and to cover the risk inherent in options.

Structural risk is managed by the Asset and Liability Management Committee of B2B Trust in accordance with the risk management policy established by the Board of Directors. This policy defines relative ceilings of economic value and interest income risk. Risk ceilings are calculated by simulating the impact of immediate and sustained parallel movements of 100 basis points of rates for all maturities. Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities. Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed periodically by the Asset and Liability Management Committee, which is in charge of establishing B2B Trust's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk. B2B Trust's interest rate gap position at October 31, 2003 appears in Note 17 of the *Financial Statements*.

To ensure sound management of structural risk, management also conducts simulation analysis of the variation in net income and shareholders' equity based on a repricing spread report and various interest rate scenarios. One of the main simulation exercises consists of subjecting B2B Trust's balance sheet to a sudden sustained 1% increase in interest rates. For example, at October 31, 2003, for all portfolios, this 1% rate increase would have triggered an increase of $69 thousand in income before taxes over the next 12 months and would have a negligible impact on the value of shareholders' equity. These results reflect management's efforts to take advantage of short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board.

Liquidity Risk Management

Liquidity risk is the risk of loss if B2B Trust does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments. Liquidity management provides B2B Trust with the assurance that sufficient funds will be available to meet its commitments. Efficient liquidity management is essential to maintaining market confidence and protecting B2B Trust's capital. It is an integral part of asset and liability management. B2B Trust monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the regulatory requirements governing it.

2. CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour the contractual or financial obligations of a balance sheet or off-balance sheet financial instrument. This risk results from being party to a financial operation with a counterparty. The expression "counterparty" encompasses an issuer, a debtor, a borrower, a broker or an underwriter.

Credit risk management is largely independent of operations, thus protecting the independence and integrity of risk evaluation. The internal Credit Committee at B2B Trust is responsible for the operational supervision of overall credit risk management. A credit risk management report is presented on a quarterly basis to the Board's Risk Management Committee. B2B Trust, pursuant to a service agreement, has retained the services of Laurentian Bank of Canada with respect to the analysis, approval and recovery of certain loans and management of credit systems.

The credit risk policies adopted by B2B Trust provide for appropriate risk assessment and the setting of lending limits. These policies cover the approval of credit applications by the line of authority concerned, attributing risk ratings, managing of impaired loans, establishing general and specific provisions and pricing based on risk. Under the credit limit rules, no loan to a single borrower may exceed $1.5 million, unless otherwise approved by the Board's Risk Management Committee.

B2B Trust ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying different mechanisms and policies. This includes systematically reviewing various categories of loans and collateral and analysing pricing. Each month, Management reviews impaired loans and follows up on loans where payment is past due. As well, the collection process is centralized and is based on specialized expertise.

3. OPERATIONAL RISK MANAGEMENT

Operational risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The Risk Management and Compliance Department of B2B Trust, in conjunction with the Risk Integration and Operational Risk Management Department of Laurentian Bank of Canada, support the operational risk management function: these departments develop appropriate policies, gather data on operating losses, assist managers in identifying operating risks and put in place control measures and procedures.

Outsourcing Risk

Outsourcing is an important strategy that enables B2B Trust to remain competitive both in terms of costs and the diversification of products it offers. B2B Trust can choose to outsource activities in which it has not attained the critical level of use or expertise, and in which some providers are more efficient and profitable. As part of its Outsourcing Policy, it ensures that its partners operate according to sound management practices and usually reserves the right to audit these practices.

4. CAPITAL MANAGEMENT RISK

Capital management risk is the risk of the possible negative impact if B2B Trust cannot maintain an optimum level of capital to support its activities. The capital of B2B Trust is comprised of common shareholders' equity, retained earnings and subordinated indebtedness. B2B Trust's capital represents an essential factor in assessing its stability and security in relation to the risks associated with its activities. Capital management contributes to B2B Trust's profitability, as capital is allocated to key sectors for which defined profitability objectives and criteria have been established. B2B Trust's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders in relation to industry standards and its specific risk profile. B2B Trust's policy is to maintain its statutory capital ratios at a level comparable to that of the industry and consistent with regulatory requirements as defined by OSFI for well capitalized financial institutions.

FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2003 AND 2002

The financial statements present a recent financial history of the financial condition, results of operations and cash flows of B2B Trust. The accompanying notes are an important part of understanding B2B Trust's performance. They explain how we arrived at the numbers in the financial statements, describe significant events or changes that affect the numbers, and explain certain items in the financial statements. They also include details about the financial results that are not shown in the financial statements.

Management's responsibility for financial information

The financial statements of B2B Trust were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are maintained. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.

The internal control systems are further supported by a compliance function, which ensures that B2B Trust and its employees comply with all regulatory requirements, as well as by a risk integration function and an operating risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically evaluate various aspects of B2B Trust's operations and make recommendations to management for, among other things, improvements in the internal control systems.

Every year, the Superintendent of Financial Institutions of Canada makes such examinations and inquiries as deemed necessary to satisfy itself that B2B Trust is in a sound financial position and that it complies with the provisions of the *Trust and Loans Companies Act* (Canada) as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

Ernst & Young LLP, independent auditors, appointed by the shareholders, examine B2B Trust's financial statements and their report follows.

The internal auditors, the external auditors and the Superintendent of Financial Institutions of Canada meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee.

Bernard Piché
President and Chief Executive Officer

Diane Lafresnaye
Vice-President, Finance

Toronto, Canada
December 2, 2003

Auditors' report to the shareholders of B2B Trust

We have audited the balance sheet of B2B Trust as at October 31, 2003 and 2002 and the statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of B2B Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of B2B Trust as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
December 1, 2003

Balance sheet

As at October 31

In thousands of dollars	Notes	2003	2002
ASSETS			
Cash and cash equivalents		**$ 292,940**	$ 209,763
Securities	3	**290,044**	218,637
Loans	4		
Investment		**1,113,501**	1,181,779
Residential mortgages		**783,782**	976,045
Other personal	2	**96,710**	41,721
		1,993,993	2,199,545
Allowance for loan losses	4	**(2,619)**	(2,140)
		1,991,374	2,197,405
Capital assets	5	**2,717**	3,072
Other assets	6	**49,336**	57,466
		$2,626,411	$2,686,343
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits	2 and 7	**$2,207,083**	$2,267,155
Other liabilities	8	**175,141**	176,153
		2,382,224	2,443,308
Subordinated indebtedness	9	**60,000**	60,000
Shareholders' equity			
Common shares	10	**126,529**	131,640
Contributed surplus		**20,755**	21,549
Retained earnings		**36,903**	29,846
		184,187	183,035
		$2,626,411	$2,686,343

(Related party transactions—see note 15)
The accompanying notes form an integral part of the financial statements.

On behalf of the Board:

Raymond McManus
Chairman of the Board

Bernard Piché
President and Chief Executive Officer

Statement of income

For the years ended October 31

In thousands of dollars, except per share amounts	Notes	2003	2002
Interest income			
Loans		**$118,743**	$119,747
Deposits with other financial institutions		**9,386**	6,390
Securities		**7,922**	6,551
		136,051	132,688
Interest expense			
Deposits		**85,283**	73,799
Subordinated indebtedness	9	**3,953**	3,946
		89,236	77,745
Net interest income		**46,815**	54,943
Other income			
Self-directed plan fees		**12,486**	13,110
Deposits		**263**	209
Other		**2,966**	3,531
		15,715	16,850
		62,530	71,793
Provision for loan losses	4	**1,650**	750
		60,880	71,043
Non-interest expenses			
Salaries and employee benefits	12	**13,295**	13,313
Premises and technology		**10,902**	9,800
Other		**13,430**	13,790
		37,627	36,903
Income before income taxes		**23,253**	34,140
Income taxes	13	**8,631**	13,476
Net income		**$ 14,622**	$ 20,664
Average number of common shares (in thousands)	10 and 14	**24,596**	24,844
Average number of common shares after dilution (in thousands)	10 and 14	**24,596**	24,950
Net income per common share	10 and 14		
basic		**$ 0.59**	$ 0.83
diluted		**$ 0.59**	$ 0.83

(Related party transactions—see note 15)
The accompanying notes form an integral part of the financial statements.

Statement of changes in shareholders' equity

For the years ended October 31

In thousands of dollars	Notes	**2003**	2002
Common shares			
Balance at beginning of year		**$131,640**	$131,640
Purchased for cancellation	10	**(5,111)**	–
Balance at end of year		**$126,529**	$131,640
Contributed surplus			
Balance at beginning of year		**$ 21,549**	$ 21,549
Stock-based compensation	11	**43**	–
Premium paid on common shares purchased for cancellation	10	**(837)**	–
Balance at end of year		**$ 20,755**	$ 21,549
Retained earnings			
Balance at beginning of year		**$ 29,846**	$ 12,660
Net income		**14,622**	20,664
Dividends		**(6,875)**	(3,478)
Premium paid on common shares purchased for cancellation	10	**(690)**	–
Balance at end of year		**$ 36,903**	$ 29,846
Total shareholders' equity		**$184,187**	$183,035

The accompanying notes form an integral part of the financial statements.

Statement of cash flows

For the years ended October 31

In thousands of dollars	2003	2002
Cash flows from operating activities		
Net income	$ 14,622	$ 20,664
Adjustments to determine net cash flows from operating activities:		
Provision for loan losses	1,650	750
Depreciation and amortization	1,779	817
Stock-based compensation	43	–
Net gains on sale of securities	(1,828)	(42)
Future income tax expense	3,846	9,427
Change in accrued interest receivable	730	921
Decrease (increase) in amounts receivable on derivative financial instruments	2,984	(3,684)
Change in accrued interest payable	17,386	20,581
Increase (decrease) in amounts payable on derivative financial instruments	(1,466)	816
Other, net	(16,720)	(15,241)
	23,026	35,009
Cash flows from financing activities		
Net change in deposits	(60,072)	71,691
Common shares purchased for cancellation	(6,638)	–
Dividends paid	(6,942)	(1,739)
	(73,652)	69,952
Cash flows from investing activities		
Net cash and cash equivalents received at the acquisition of net assets	–	59,410
Acquisition of other personal loans	(28,427)	–
Net change in securities	(69,579)	26,154
Acquisition of residential mortgages, net	(13,185)	(341,758)
Net change in loans	245,607	140,431
Acquisition of capital assets, net	(613)	(1,008)
	133,803	(116,771)
Net change in cash and cash equivalents	83,177	(11,810)
Cash and cash equivalents at beginning of year	209,763	221,573
Cash and cash equivalents at end of year	$292,940	$209,763
Supplemental disclosure relating to cash flows:		
Interest paid during the year	$ 73,084	$ 56,454
Income taxes paid during the year	$ 5,613	$ 9,160

The accompanying notes form an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of B2B Trust have been prepared in accordance with the *Trust and Loans Companies Act* (Canada), which states that except as otherwise specified by the Superintendent of Financial Institutions of Canada, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported in the financial statements. Actual results could differ from those estimates.

Certain comparative figures have been reclassified to conform to the current year presentation.

SECURITIES

Securities are purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive.

Fixed-term securities are recorded at amortized cost. Other securities are recorded at cost, except for those used for hedging purposes, which are accounted for on a basis consistent with the related financial instrument.

Gains and losses realized on disposal of securities and write-downs to reflect other than temporary impairments in value are included in other income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income.

LOANS

Loans are stated net of the allowance for loan losses and any unearned interest.

Loans are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. However, when payment of principal or interest is 90 days past due, the loans are classified as impaired, unless they are well-secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by a Canadian government (provincial or federal) or a Canadian government agency; such loans are classified as impaired if the loan is in arrears for 365 days.

When loans are classified as impaired, the recognition of the interest due ceases. The book value of these loans are then brought back to their estimated realizable value by totally or partially writing off the loan and/or establishing an allowance for loan losses. Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific allowance, and if, in management's opinion, there is no reasonable doubt as to the ultimate collectibility of the total principal.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management has no reasonable doubt as to the recovery of the loan.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

ALLOWANCE FOR LOAN LOSSES

B2B Trust maintains an allowance for loan losses at an amount deemed adequate to absorb losses related to its loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to income and reduced by write-offs net of recoveries. Loans are written off when all possible restructuring or recovery activities have been completed and it is unlikely that other amounts can be recovered.

Specific allowances

Specific allowances are established on a loan-by-loan basis to absorb losses on all impaired loans which have been identified as a result of the regular review of the loans portfolio. These allowances are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan at the date of impairment. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans are used to establish the allowances.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

General allowances

General allowances reflect the best estimate of potential losses related to the deterioration of credit quality, within the portion of the portfolio that has not yet been specifically identified as impaired.

An allocated general allowance, based on the historical loss experience of previous years and an economic cycle reference factor, is now computed for each pool of loans with common risk characteristics. This method allows the specific allocation of a general allowance to the identified pools of loans and the determination of an unallocated general allowance.

The unallocated general allowance reflects the assessment of potential losses on the portfolio which are not identified by the specific allowances and the allocated general allowance. This assessment includes consideration of economic and business conditions, changes to the portfolio's composition, management's judgement, as well as risks related to the model.

CAPITAL ASSETS

Capital assets consist primarily of computer equipment and software which are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets estimated at five years.

EMPLOYEE FUTURE BENEFITS

B2B Trust's employees benefit from defined benefit pension plans maintained by the parent company, Laurentian Bank of Canada.

Since January 1, 2001, one of these plans has a defined contribution portion for certain categories of employees. Plan members who were active at this date could elect to remain in the defined benefit portion or participate in the defined contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to take part in the defined contribution portion. The expense for the defined contribution portion corresponds to the contributions that B2B Trust is required to make during the year.

Funding of these plans is provided by both the plan sponsors and the members of the plans. Under the defined benefit plans, retired employees are eligible for benefits based on length of service and the average salary at retirement.

Actuarial valuations of the pension plans are obtained by the parent company, Laurentian Bank of Canada, to determine the present value of the accrued pension benefits. There is no separate actuarial valuation for B2B Trust. Consequently, B2B Trust's contributions to these plans, as determined by the actuaries, are charged to earnings.

DERIVATIVE FINANCIAL INSTRUMENTS

B2B Trust uses derivative financial instruments to manage its exposure to interest rate risk and to benefit from market trends. The most frequently used derivative financial instruments are interest rate swaps and equity derivatives.

The income or expense related to derivative financial instruments used to manage B2B Trust's own exposure is recognized over the life of the transaction as interest expense.

Realized gains and losses related to derivative financial instruments used to manage B2B Trust's own exposure are generally deferred and amortized to interest expense over the life of the hedged items.

INCOME TAXES

B2B Trust uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from loss carryforwards and temporary differences between the carrying amounts and tax basis of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits with other financial institutions, bankers' acceptances and bank term deposits which, at the date of acquisition, have a term to maturity less than three months.

NET INCOME PER COMMON SHARE

B2B Trust calculates its basic net income per common share by dividing net income for the year by the weighted average number of common shares outstanding for the year. Diluted net income per common share is calculated assuming that the proceeds received from the exercise of stock options are used to repurchase common shares at their average market price during the year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

STOCK-BASED COMPENSATION

On November 1, 2002, B2B Trust adopted, on a prospective basis, the fair-value method of accounting for stock-based compensation to employees and directors. The fair value of new options granted on or after this date is recognized in earnings over the option vesting period. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimate assumptions.

With respect to awards prior to November 1, 2002, B2B Trust continues to apply the previous standards under which no compensation cost is recognized when stock options are awarded to employees or directors. In addition, the consideration paid by employees who exercise their stock options is credited to common equity.

ASSETS UNDER ADMINISTRATION

B2B Trust administers assets held for customers that are not recognized on the balance sheet. Revenues related to these assets are recorded in other income, as the service is provided.

FUTURE CHANGES TO ACCOUNTING POLICIES

Hedging Relationships

In December 2001, the Accounting Standards Board issued Accounting Guideline no.13 (AcG-13) "Hedging Relationships." In June 2002, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants (CICA) also issued EIC-128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments."

AcG-13 establishes criteria on the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. EIC-128 establishes that a free-standing derivative financial instrument that gives rise to a financial asset or financial liability and is entered into for trading or speculative purposes, or that does not qualify for hedge accounting under AcG-13, should be recognized on the balance sheet and measured at fair value, with changes in fair value recognized in current earnings. These standards will be effective November 1, 2003 for B2B Trust. The initial application of these new accounting principles is not expected to have any significant impact on the financial statements of B2B Trust. However, the impact of the application of these standards on future results cannot be determined, as it will depend on among other things, the nature and the changes of fair value of the contracted derivative financial instruments.

2. ACQUISITIONS AND MARKETING AGREEMENT

CANADIAN TIRE FINANCIAL SERVICES

On December 24, 2002, B2B Trust completed the purchase of certain Canadian Tire Financial Services (CTFS) branded loan products from another financial institution valued at approximately $28,427, net of acquisition costs of approximately $1,000 of which, $250 was allocated to general allowance for loan losses. The transaction was paid in cash. B2B Trust signed a marketing agreement with CTFS to provide services for an existing line of credit product currently marketed to CTFS customers.

SUN LIFE FINANCIAL TRUST INC.

On September 3, 2002, in the course of a joint transaction with Laurentian Bank of Canada, B2B Trust acquired a portfolio of personal loans valued at approximately $38,227, net of the general allowance for loan losses of approximately $368 from Sun Life Financial Trust Inc. Laurentian Bank of Canada acquired a portfolio of mortgages valued at approximately $28,528. In return, B2B Trust assumed deposit liabilities valued at approximately $98,002 and received a cash consideration of $59,410, including $28,528 from Laurentian Bank of Canada related to its acquisition of the mortgages portfolio, net of acquisition costs incurred of approximately $365.

3. SECURITIES

(A) MATURITY SCHEDULE AT YEAR-END AND RETURNS

	Within 1 year	1 to 5 years	Over 5 years	No stated maturity	2003 Total	2003 %	2002 Total	2002 %
Securities issued or guaranteed								
by Canada	$138,712	$50,295	$ –	$ –	$189,007	3.0	$160,421	3.0
by provinces	66,722	–	–	–	66,722	2.9	47,695	4.8
Other debt securities	–	9,233	3,919	–	13,152	4.6	–	–
Preferred shares	–	–	–	19,824	19,824	4.4	–	–
Common shares	–	–	–	1,339	1,339	1.9	10,521	2.2
	$205,434	$59,528	$3,919	$21,163	$290,044	3.1	$218,637	3.3

The term to maturity included in the table above is based on the contractual maturity date of the security.
The weighted average return is calculated based on the book value at the year-end of each type of security.

(B) UNREALIZED GAINS AND LOSSES

2003	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed				
by Canada	$189,007	$124	$ (28)	$189,103
by provinces	66,722	2	(31)	66,693
Other debt securities	13,152	14	(13)	13,153
Preferred shares	19,824	574	(48)	20,350
Common shares	1,339	–	–	1,339
	$290,044	$714	$(120)	$290,638

2002	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed				
by Canada	$160,421	$138	$ –	$160,559
by provinces	47,695	556	–	48,251
Common shares	10,521	–	–	10,521
	$218,637	$694	$ –	$219,331

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

(A) LOANS AND IMPAIRED LOANS

	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Net amount of impaired loans
					2003
Investment	**$1,113,501**	**$1,523**	**$ 771**	**$ 709**	**$ 43**
Residential mortgages [1]	**783,782**	**–**	**–**	**–**	**–**
Other personal	**96,710**	**856**	**230**	**618**	**8**
Unallocated general allowances	**–**	**–**	**–**	**291**	**(291)**
	$1,993,993	**$2,379**	**$1,001**	**$1,618**	**$(240)**

	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Net amount of impaired loans
					2002
Investment	$1,181,779	$1,655	$772	$ 632	$ 251
Residential mortgages [1]	976,045	–	–	–	–
Other personal	41,721	–	–	368	(368)
Unallocated general allowances	–	–	–	368	(368)
	$2,199,545	$1,655	$772	$1,368	$(485)

(1) The residential mortgage loans are essentially all insured by the Canada Mortgage and Housing Corporation ("CMHC").

(B) ALLOWANCE FOR LOAN LOSSES

	Specific allowances	General allowances	**2003**
Balance at beginning of year	**$ 772**	**$1,368**	**$ 2,140**
Provision for loan losses charged to statement of income	**1,650**	**–**	**1,650**
Allowance for loan losses resulting from an acquisition (Note 2)	**–**	**250**	**250**
Recoveries	**43**	**–**	**43**
Write-offs	**(1,464)**	**–**	**(1,464)**
Balance at end of year	**$ 1,001**	**$1,618**	**$ 2,619**

	Specific allowances	General allowances	2002
Balance at beginning of year	$ 618	$1,000	$1,618
Provision for loan losses charged to statement of income	750	–	750
Allowance for loan losses resulting from an acquisition (Note 2)	–	368	368
Recoveries	17	–	17
Write-offs	(613)	–	(613)
Balance at end of year	$ 772	$1,368	$2,140

No restructured loans were written off during the years ended October 31, 2003 and 2002.

5. CAPITAL ASSETS

			2003	2002
	Cost	Accumulated depreciation	Net book value	Net book value
Software	$3,584	$1,878	$1,706	$2,066
Computer equipment	1,980	969	1,011	1,006
	$5,564	$2,847	$2,717	$3,072

Software includes an amount totaling $5 in 2003 ($198 in 2002) related to projects under development that are not depreciated.

6. OTHER ASSETS

	2003	2002
Future income tax assets (Note 13)	$18,990	$22,836
Accounts receivable	8,181	11,031
Amounts related to derivative financial instruments	7,443	10,427
Deferred commissions on deposits	7,400	8,100
Accrued interest receivable	2,966	3,310
Other	4,356	1,762
	$49,336	$57,466

7. DEPOSITS

	2003	2002
Demand and notice	$ 261,827	$ 228,896
Term	1,945,256	2,038,259
	$2,207,083	$2,267,155

Demand deposits consist of deposits with individuals in respect of which B2B Trust is not authorized to require a notice at the time of withdrawal by the customer. These deposits are primarily made up of chequing accounts.

Notice deposits consist of deposits with individuals in respect of which B2B Trust may legally require a withdrawal notice. These deposits are generally made up of savings accounts.

Term deposits consist of deposits with individuals maturing at a specific date, in particular term deposits and guaranteed investment certificates.

8. OTHER LIABILITIES

	2003	2002
Accrued interest payable	$157,295	$139,909
Cheques and other items in transit, net	13,337	19,670
Amounts related to derivative financial instruments	388	1,854
Accounts payable, accrued expenses and other (Note 15)	4,121	14,720
	$175,141	$176,153

9. SUBORDINATED INDEBTEDNESS

On December 28, 2000, subordinated indebtedness in the amount of $60,000 was issued to Laurentian Bank of Canada. This indebtedness is a direct unsecured obligation of B2B Trust and is subordinated in right of reimbursement to the claims of depositors of B2B Trust. Any repurchase or cancellation of subordinated indebtedness must be approved by the Superintendent of Financial Institutions of Canada. The subordinated indebtedness bears interest of 6.60%, and will be revised in December 2005 to be set at the 90 day bankers' acceptance rate plus 1.25%. This indebtedness matures in December 2010 and is redeemable by B2B Trust at par as of December 2005.

10. CAPITAL STOCK

ISSUED AND OUTSTANDING

	2003		2002	
	Number of shares	Amount	Number of shares	Amount
Common shares	**23,879,855**	**$126,529**	24,844,355	$131,640

REPURCHASE OF COMMON SHARES

On May 29, 2003, B2B Trust announced its intention to make a normal course issuer bid. The notice provides that B2B Trust intends to purchase up to 1,240,000 of its common shares representing approximately 5% of its 24,844,355 issued and outstanding common shares as at April 30, 2003. The right to purchase common shares under the bid commenced on June 3, 2003 and will terminate on June 2, 2004.

Purchases were made on the open market at market prices through the facilities of The Toronto Stock Exchange. Premiums paid above the assigned value of common shares as determined by the amount attributed to common shares divided by the average number of common shares, were charged to retained earnings and contributed surplus. As at October 31, 2003, B2B Trust had repurchased 964,500 common shares for a total cost of $6,638 which reduced the balance of common shares by $5,111, contributed surplus by $837 and retained earnings by $690.

CHARITABLE WARRANT

B2B Trust issued during its initial public offering a share purchase warrant (the "Charitable Warrant") to the Hospital for Sick Children Foundation ("HSCF") for no consideration. The Charitable Warrant is not transferable, may be exercised at any time on or before June 27, 2011 and entitles HSCF to purchase 5,000 common shares of B2B Trust at a purchase price of $9.00 per share.

11. STOCK-BASED COMPENSATION

Pursuant to a share purchase option plan, options are granted to directors, executives and key employees as well as Laurentian Bank of Canada directors and officers, for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date.

The right to exercise these options is acquired gradually over a maximum period of four years and the options can be exercised at all times up to 10 years after they have been granted.

B2B Trust had reserved 1,845,035 common shares for the potential exercise of stock options, representing 10% of all the issued and outstanding common shares prior to the closing of its initial public offering.

The following tables summarize information relating to the stock options for the years ended October 31, 2003 and 2002.

	2003		2002	
	Number of options	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	902,500	$8.98	965,000	$8.95
Granted	45,000	7.82	60,000	9.53
Cancelled	(98,500)	9.00	(122,500)	9.00
Outstanding at end of year	849,000	$8.92	902,500	8.98
Options exercisable at end of year	252,975	$8.94	–	$ –

2003	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$8.99 and less	97,000	8.48	$7.88	13,999	$7.83
$9.00 and over	752,000	7.60	9.05	238,976	9.00
	849,000	7.70	$8.92	252,975	$8.94

Fair value method

On November 1, 2002, B2B Trust adopted, on a prospective basis, the recommendations of the CICA to recognize a compensation expense in the statement of income, over the option vesting period, based on the fair value of the options granted.

Accordingly, compensation expense of $43 was recognized in 2003. The weighted-average grant date fair-value of options granted during the year has been estimated at $2.84 using the following assumptions: weighted-average risk-free interest rate of 5.0%, weighted-average expected annual dividend yield of 3.0%, weighted-average expected common stock price volatility of approximately 36.0% and a weighted-average expected life of 6 years.

12. EMPLOYEE FUTURE BENEFITS

The employee future benefits expense, included in salaries and employee benefits, is $669 for 2003 ($527 in 2002).

13. INCOME TAXES

FUTURE INCOME TAX ASSETS

Significant components of the future income tax assets and liabilities are as follows:

	2003	2002
Intangible assets recognized on reorganization	**$15,093**	$15,603
Loss carryforwards	**2,761**	4,922
Recoverable minimum tax of financial institutions	**1,793**	4,248
Share issue costs	**860**	1,404
Deferred charges	**(2,274)**	(2,938)
Other temporary differences	**757**	(403)
Future income tax assets, net	**$18,990**	$22,836

PROVISION FOR INCOME TAXES

Significant components of the provision for income taxes are as follows:

Statement of income	2003	2002
Current income tax expense	**$4,785**	$ 4,049
Future income tax expense:		
Creation and reversal of timing differences	**3,846**	10,031
Tax rate changes	**–**	(604)
	$8,631	$13,476

Statement of changes in shareholders' equity	2003	2002
Tax on dividends paid on preferred shares of the parent company	**$ –**	$ 1,009
Income tax expense	**–**	5,636
Future income tax benefit	**–**	(4,627)
	$ –	$ 1,009

In accordance with tax legislation and as a result of an agreement with Laurentian Bank of Canada, an amount of tax related to dividends paid on preferred shares of the Laurentian Bank of Canada along with the related tax deduction was transferred during the year 2002 by the Laurentian Bank of Canada to B2B Trust. Pursuant to this agreement a compensation of $1,009 was received in 2002 from Laurentian Bank of Canada and was recorded in the statement of changes in shareholders' equity.

RECONCILIATION OF INCOME TAX EXPENSE

The reconciliation of income tax computed at the statutory tax rates to income tax expense is:

	2003		2002	
	Amount	%	Amount	%
Income taxes at statutory rate	**$8,404**	**36.1**	$13,229	38.8
Increase (decrease) resulting from:				
Large corporations tax	**260**	**1.1**	500	1.5
Tax exempt income from securities	**(215)**	**(0.9)**	(93)	(0.3)
Tax rate changes	**–**	**–**	(604)	(1.8)
Other, net	**182**	**0.8**	444	1.3
Income taxes at effective tax rate	**$8,631**	**37.1**	$13,476	39.5

14. NET INCOME PER COMMON SHARE

The number of shares and options are expressed in thousands.

	2003	2002
Net income	**$14,622**	$20,664
Average number of common shares outstanding	**24,596**	24,844
Effect of dilutive securities	**–**	106
Average number of common shares outstanding after dilution	**24,596**	24,950
Net income per common share:		
basic	**$ 0.59**	$ 0.83
diluted	**$ 0.59**	$ 0.83

For 2003, share purchase stock options and the charitable warrant were not taken into account in the calculation of diluted net income per common share since the average exercise price of these options and the charitable warrant exceeded the average market value of B2B Trust's common shares during the year. For 2002, an average number of 447,785 stock options and the charitable warrant were not taken into account in the calculation of diluted net income per common share.

15. RELATED PARTY TRANSACTIONS

B2B Trust has carried out transactions, in the normal course of its activities, with its parent company. Related party transactions and balances included in the financial statements of B2B Trust, measured at the exchange amount, consist of the following, with the exception of those disclosed elsewhere in the financial statements:

	2003	2002
Statement of income		
Interest income		
Deposits with other financial institutions	**$ 6,935**	$ 6,193
Securities	**–**	429
Interest expense		
Interest income on swaps (as a reduction of interest expense)	**25,095**	38,687
Non-interest expenses		
Premises and technology	**6,381**	6,008
Other	**5,324**	5,322
Assets		
Cash and cash equivalents	**$237,980**	$154,926
Other assets	**6,612**	9,737
Liabilities		
Other liabilities	**$ 424**	$ 3,661

(A) SERVICING AGREEMENTS

B2B Trust has entered into servicing agreements with Laurentian Bank of Canada for various services. The primary services to be provided by Laurentian Bank of Canada include transaction settlement services, agency banking services, technology systems and services, risk management services, finance and accounting services, internal audit services, legal and compliance services, human resources, real estate and purchasing services and tax planning and reporting. The term of the servicing agreements is for a period of five years which commenced on July 1, 2000 and will be automatically renewed on a year to year basis. These transactions, which are included in the previous table, are carried out in the normal course of business and measured at the exchange amount.

15. RELATED PARTY TRANSACTIONS (CONT'D)

(B) ACQUISITION OF RESIDENTIAL MORTGAGES

On August 15, 2003, Laurentian Bank of Canada entered into an agreement in principal with another financial institution with respect to the sale of 57 branches in Ontario and Western Canada. In order to facilitate the transaction, on September 30, 2003, B2B Trust exchanged a portfolio of $181,576 of CMHC insured residential mortgages for a portfolio of $194,761 of CMHC insured residential mortgages. In addition, B2B Trust terminated and initiated certain interest rate swaps to manage the interest rate exposure on these mortgages. These transactions were measured at the exchange amount, and resulted in a net cash disbursement of $13,185 with no impact on the statement of income.

During the year ended October 31, 2002, B2B Trust acquired from Laurentian Bank of Canada, in the normal course of business, residential mortgages at the exchange amount of approximately $341,758.

16. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, B2B Trust enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and to benefit from market trends. The various derivative financial instruments listed in the table below are defined as follows:

Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specific period of time.

Equity derivative transactions are used in order to hedge its index-linked deposits.

The following tables present the notional amounts associated with the derivative financial instruments. These amounts are not indicative of the potential gain or loss related to the credit or market risk of those instruments.

(A) REMAINING TERM TO MATURITY

The following table provides the notional amounts of derivative transactions by term to maturity for the year ended October 31, 2003.

				2003	2002
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Total
Interest rate swaps [1]	$550,000	$1,370,000	$–	$1,920,000	$1,685,000
Equity derivatives	–	5,987	–	5,987	21,304
	$550,000	$1,375,987	$–	$1,925,987	$1,706,304

(1) All interest rate swaps as at October 31, 2003 and 2002 are with Laurentian Bank of Canada.

(B) CREDIT RISK

	2003			2002		
Notional amount	Replacement cost[1]	Credit equivalent amount[2]	Risk-weighted amount[3]	Replacement cost[1]	Credit equivalent amount[2]	Risk-weighted amount[3]
Interest rate swaps	$35,901	$42,751	$8,550	$43,728	$50,578	$10,116
Equity derivatives	880	1,359	271	1,687	3,031	605
	$36,781	$44,110	$8,821	$45,415	$53,609	$10,721

(1) Represents the total current replacement cost in a favorable position, before factoring in the impact of master netting agreements.
(2) Consists of the total positive replacement cost and an amount for potential future credit exposure based on guidelines issued by the Superintendent of Financial Institutions of Canada.
(3) Using guidelines issued by the Superintendent of Financial Institutions of Canada.

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

Credit risk from derivative financial instrument transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a favorable market value for B2B Trust. This market value is referred to as replacement cost since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred. The credit equivalent amount arising from a derivative financial instrument transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

17. FINANCIAL INSTRUMENTS

The amounts indicated in the following tables (a) and (b) present the fair value of on- and off-balance sheet financial instruments of B2B Trust, based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of B2B Trust's financial instruments. In such cases, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

(A) FAIR VALUE OF ASSETS AND LIABILITIES

		2003			2002	
In millions of dollars	Book value	Fair value	Variance favorable (unfavorable)	Book value	Fair value	Variance favorable (unfavorable)
Assets						
Cash and cash equivalents	$ 293	$ 293	$ –	$ 210	$ 210	$ –
Securities	290	291	1	219	219	–
Loans	1,991	2,008	17	2,197	2,226	29
Other assets	49	49	–	57	57	–
Liabilities						
Deposits	$2,207	$2,263	$(56)	$2,267	$2,340	$(73)
Other liabilities	175	175	–	176	176	–
Subordinated indebtedness	$ 60	$ 64	$ (4)	$ 60	$ 64	$ (4)

The fair value of items which are short term in nature or contain variable rate features is considered to be equal to book value.

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

The fair value of loans, deposits and subordinated indebtedness is estimated by discounting cash flows using market interest rates.

(B) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

		2003			2002	
In millions of dollars	Favorable fair value	Unfavorable fair value	Net amount	Favorable fair value	Unfavorable fair value	Net amount
Interest rate swaps	$36	$2	$34	$44	$7	$37
Equity derivatives	1	–	1	2	–	2
	$37	$2	$35	$46	$7	$39

The fair value of off-balance sheet derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

17. FINANCIAL INSTRUMENTS (CONT'D)

(C) INTEREST RATE RISK

The following tables give the detailed maturity dates and average effective rates of the on- and off-balance sheet instruments.

2003

	Floating	Less than 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and cash equivalents and securities	$ 15,134	$ 351,707	$ 98,069	$ 79,936	$ 28,958	$ 9,180	$ –	$ 582,984
Rate	3.2%	2.9%	3.4%	3.8%	4.3%	5.3%	–%	3.2%
Loans	1,171,512	68,189	234,826	289,010	221,082	8,514	(1,759)	1,991,374
Rate	5.5%	4.0%	5.8%	6.3%	6.3%	7.2%	–%	5.7%
Capital assets and other assets	1,308	19,810	–	–	–	–	30,935	52,053
Rate	–%	–%	–%	–%	–%	–%	–%	–%
Total	$1,187,954	$ 439,706	$332,895	$ 368,946	$250,040	$ 17,694	$ 29,176	$2,626,411
Rate	5.5%	2.9%	5.1%	5.8%	6.1%	6.2%	–%	5.0%
Liabilities and shareholders' equity								
Demand and notice deposits	$ 126,985	$ 6,194	$ 18,581	$ 55,034	$ 55,033	$ –	$ –	$ 261,827
Rate	2.6%	0.2%	0.2%	0.2%	0.2%	–%	–%	1.4%
Term deposits	–	143,814	636,998	875,149	289,148	147	–	1,945,256
Rate	–%	3.5%	4.6%	5.4%	4.8%	4.2%	–%	4.9%
Other liabilities	13,337	26,057	77,035	44,050	14,213	19	430	175,141
Rate	–%	1.2%	2.2%	5.4%	4.7%	4.1%	–%	2.9%
Subordinated indebtedness and shareholders' equity	–	–	–	60,000	–	–	184,187	244,187
Rate	–%	–%	–%	6.6%	–%	–%	–%	1.6%
Total	$ 140,322	$ 176,065	$732,614	$1,034,233	$358,394	$ 166	$ 184,617	$2,626,411
Rate	2.4%	3.0%	4.2%	5.2%	4.1%	4.2%	–%	4.1%
Swaps, net	$ –	$(1,360,000)	$450,000	$ 510,000	$400,000	$ –	$ –	$ –
Sensitivity gap	$1,047,632	$(1,096,359)	$ 50,281	$ (155,287)	$291,646	$ 17,528	$(155,441)	$ –
Cumulative gap	$1,047,632	$ (48,727)	$ 1,554	$ (153,733)	$137,913	$155,441	$ –	$ –

2002

	Floating	Less than 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Total assets	$1,151,165	$ 300,195	$326,512	$ 602,529	$231,351	$ 39,417	$ 35,174	$2,686,343
Rate	5.4%	3.0%	5.5%	6.1%	6.4%	6.0%	–%	5.4%
Total liabilities and shareholders'equity	$ 59,587	$ 205,030	$506,482	$1,130,526	$542,400	$ 58,157	$ 184,161	$2,686,343
Rate	1.8%	3.1%	3.9%	5.2%	5.0%	2.7%	–%	4.3%
Swaps, net	$ –	$ (960,000)	$ 50,000	$ 530,000	$410,000	$(30,000)	$ –	$ –
Sensitivity gap	$1,091,578	$ (864,835)	$(129,970)	$ 2,003	$ 98,951	$(48,740)	$(148,987)	$ –
Cumulative gap	$1,091,578	$ 226,743	$ 96,773	$ 98,776	$197,727	$148,987	$ –	$ –

17. FINANCIAL INSTRUMENTS (CONT'D)

Assets, liabilities and shareholders' equity are shown at the earlier of the date of maturity or contractual re-evaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to variations of market rates are classified based on the historical evolution of their sensitivity.

Securities held for asset liability management purposes are classified based on the maturity of the related liability.

18. COMMITMENTS, CONTINGENCIES AND GUARANTEES

(A) CREDIT-RELATED COMMITMENTS

Unutilized credit balances represent a commitment to make credit available in the form of loans subject to specific conditions.

Credit-related commitments in the amount of $203,886 ($32,310 in 2002) represent the maximum amount of additional credit that B2B Trust could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements will terminate without being drawn upon.

(B) GUARANTEES

In February 2003, the CICA issued Accounting Guideline no.14 (AcG-14), "Disclosure of Guarantees," which clarifies disclosure requirements for certain guarantees. The effective date is for financial statements of periods beginning on or after January 1, 2003. The adoption of AcG-14 did not have any significant impact on B2B Trust's financial position or results of operations.

In the normal course of its operations, B2B Trust provides indemnification agreements to counterparties in transactions such as purchase contracts, servicing agreements, and director or officer contracts. These indemnification agreements require B2B Trust to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. The nature of the indemnification agreements prevents B2B Trust from making a reasonable estimate of the maximum potential amount it could be required to pay counterparties. Historically, B2B Trust has not made any significant payments under such indemnifications. No amount has been accrued with respect to these indemnification agreements.

(C) MINIMUM LEASE COMMITMENTS

B2B Trust has entered into lease agreements with Laurentian Bank of Canada for office space. Future minimum payments with respect to these leases, as at October 31, 2003, are as follows:

2004	$ 674
2005	684
2006	483
2007	328
2008	306
Thereafter	746
	$3,221

(D) LITIGATION

B2B Trust is involved in various pending legal actions which arise in the normal course of business. Many of these proceedings are related to investment loans contracted by clients in the context of investments made on the advice of independent financial advisors. Certain claims for damages have also been brought against B2B Trust with respect to its role as bare trustee with regard to operations related to portfolio administration. Management considers that the aggregate contingent liability resulting from these actions is not significant.

Corporate governance

B2B Trust's internal governance policies and practices are aimed at providing the Board of Directors with the authority, autonomy and information that it requires to assume its responsibilities with regard to management and shareholders. These policies and practices are evaluated regularly by the various Board of Directors' committees to ensure that they abide by guidelines of The Toronto Stock Exchange for effective corporate governance. A comparison with these guidelines can be found in the Management Proxy Circular prepared in connection with the 2003 Annual Meeting of the Shareholders.

BOARD COMMITTEES

The Board has established three committees (Audit Committee, Human Resources and Corporate Governance Committee and Risk Management Committee), to which it has delegated specific responsibilities and functions. Their composition takes into account legislative requirements and the nature of their mandate. All of the Board committees are composed primarily of outside directors who are independent of the management of B2B Trust. They all report directly in writing to the Board on their work.

The **Audit Committee** reviews the annual and quarterly financial statements of B2B Trust, along with all documents that are part of annual and quarterly financial disclosures, including press releases and *Management's discussion and analysis of the financial condition and operating results*. Moreover, the committee reviews the implementation of appropriate control measures and of any financial matter that it deems appropriate or that is referred to it by the Board.

With regard to risk management, the audit committee

- ensures that B2B Trust has adopted control measures that allow adequate management of its activities and risks; and
- ensures that management and the Board have pertinent, precise and complete information, and that B2B Trust complies with regulations.

Moreover, the committee is specifically in charge of supervising B2B Trust's internal audit function. In discharging their responsibilities, the committee members meet, together and separately, with the officers and the external auditors to discuss financial matters within their terms of reference.

The Audit Committee consists of five directors:
George J. Bunze, *Chair*, Robert Cardinal, Ronald Corey, Georges Hébert and Roy Palmer

The **Human Resources and Corporate Governance Committee** reviews and approves senior executive compensation, assesses the performance of the President and Chief Executive Officer and of the members of the management. It reviews the administration of short-term and long-term incentive programs, approves the annual salary policy, periodically reviews B2B Trust's organizational structure and approves the appointment of the executive officers. As part of its corporate governance function, the committee is in charge of implementing and monitoring the corporate governance rules. It ensures the proper functioning and the efficiency of the Board and its committees, and reviews their composition and nominations. It is this committee that proposes the appointment of new directors and supervises the evaluation of current directors. Among other duties, it establishes orientation and training programs for board members, reviews the compensation of the directors in relation to their responsibilities, ensures that shareholders are properly informed of B2B Trust's affairs and deals with any major disagreement between B2B Trust and its shareholders. It also establishes the responsibilities and powers of the board committees.

The Human Resources and Corporate Governance Committee consists of four directors:
Nancy Smith, *Chair*, Georges Hébert, Veronica S. Maidman and Raymond McManus.

The **Risk Management Committee** ensures that B2B Trust has adopted an adequate risk management process intended to identify, evaluate and manage risk, along with the formulation of adequate policies to manage credit, market, structural, capital management and operational risks. The committee groups together three functions: conduct, credit and oversight. As part of its conduct function, the committee monitors the application of methods for reviewing transactions with individuals or organizations related to B2B Trust. It monitors procedures for disclosure of information to customers concerning charges, as well as procedures for examining customer complaints. Annually, it reviews the Code of Ethics governing B2B Trust's employees and officers, and approves the rules of conduct and behaviour that take risk into account. As part of its credit function, the committee reviews B2B Trust's credit policies and procedures, and ensures that the highest standards of quality are maintained. It also approves loans and advances exceeding the limits established by the Board, including loans and advances to employees and officers. Furthermore, in its oversight function, the committee reviews conflict of interest situations between B2B Trust and its parent company, along with conflicts concerning any individual that holds a dual position. It also examines important agreements between B2B Trust and any affiliated company.

The Risk Management Committee consists of four directors:
Fred M. Jaques, *Chair*, Jacques G. Auger (until November 25, 2003), Raymond McManus, Michel C. Trudeau and Jonathan I. Weiner.

Board of directors

2000
Jacques G. Auger [2*]
Nuns' Island,
Verdun QC
Chairman of the
Board and Chief
Executive Officer
Le Link Consulting Inc.

2003
George J. Bunze [1]
Île-Bizard QC
Vice Chairman of the
Board and Director
Kruger Inc.

2000
Robert Cardinal [1]
Brossard QC
Senior Executive
Vice-President and
Chief Financial Officer
Laurentian Bank
of Canada

2000
Ronald Corey [1]
Westmount QC
President
Ronald Corey Groupe
Conseil Ltée

2000
Georges Hébert [1,3]
Town of Mount-Royal QC
President
Prosys-Tec Inc.

2003
Fred M. Jaques [2]
Oakville ON
President
Dare Foods Limited

2000
Veronica S. Maidman [3]
Toronto ON
Chair, Advisory Council
Equifax Canada Inc.

2000
Suzanne Masson [2,3**]
St-Lambert QC
Senior Vice-President,
Institutional Affairs
Caisse de dépot et
placement du Québec

2002
Raymond McManus [2,3]
(Chairman of the Board)
Baie d'Urfé QC
President and Chief
Executive Officer
Laurentian Bank
of Canada

2001
Roy Palmer [1]
Westmount QC
Corporate Director

2002
Bernard Piché
Toronto ON
President and Chief
Executive Officer
B2B Trust

2001
Nancy Smith [3]
Toronto ON
Chair and Chief
Executive Officer
The Nextmedia
Company Limited

2003
Michel C. Trudeau [2***]
Town of Mount-Royal QC
Chairman and Chief
Executive Officer
Laurentian Bank
Securities Inc.

2000
Jonathan I. Wener [2]
Hampstead QC
Chairman of the Board
Canderel management Inc.

1 Member of the Audit Committee
2 Member of the Risk Management Committee
3 Member of the Human Resources and Corporate Governance Committee

* Until November 25, 2003
** Until November 7, 2003
*** Since December 2, 2003

Management committee

Bernard Piché
Toronto ON
President and Chief
Executive Officer

David Erickson
Mississauga ON
Vice-President,
Business Solutions

Ronald Hodges
Toronto ON
Vice-President,
Product Management
and Client Services

Diane Lafresnaye
Ajax ON
Vice-President,
Finance

John Reynolds
Toronto ON
Vice-President,
Marketing

Al Spadaro
Burlington ON
Vice-President,
Business Development

Eva Stamadianos
Toronto ON
Vice-President,
Human Resources

Shareholder information

Head office
130 Adelaide Street West
Toronto, Ontario M5H 3P5
Telephone: (416) 947-5100
Fax: (416) 865-5950
Internet address:
www.b2b-trust.com

Annual meeting
The Annual Meeting of the Shareholders of B2B Trust will be held on Tuesday, March 16, 2004, at 4:30 p.m. at the Mont-Royal Centre, 2200, rue Mansfield, Montréal (Québec).

Transfer agent
For common shares
Computershare Trust Company of Canada
Investors services
1500, rue University
Bureau 700
Montréal (Québec) H3A 3S8

Investors and analysts
Investors and analysts may contact the President and Chief Executive Officer of B2B Trust at Head Office by calling (416) 865-5900.

Media
Journalists may contact the Public Affairs and Communications Department by calling (416) 865-5952.

Change of address and inquiries
Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office by calling (416) 865-5952.

Normal course issuer bid
The shareholders can obtain a copy of the Notice of Intention to Make a Normal Course Issuer Bid by contacting the Secretary's Office (416)865-5952.

Stock symbol
The common shares are listed on the Toronto Stock Exchange under the stock symbol BBT.

This Annual Report was produced by B2B Trust in collaboration with the Public Affairs and Communications department of the Laurentian Bank of Canada.

Vous pouvez recevoir un exemplaire français de ce rapport annuel en faisant parvenir votre demande par écrit à :
130 Adelaide Street West
2nd Floor
Toronto, Ontario M5H 3P5

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